

# FINAL TRANSCRIPT

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## **OSTK - Q1 2011 Overstock Com Inc Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Jonathan Johnson**

*Overstock.com, Inc. - President*

**Steve Chesnut**

*Overstock.com, Inc. - SVP, Finance*

**Patrick Byrne**

*Overstock.com, Inc. - Chairman & CEO*

## CONFERENCE CALL PARTICIPANTS

**Dan Kurnos**

*The Benchmark Company - Analyst*

**Nat Schindler**

*Bank of America-Merrill Lynch - Analyst*

**Brent Rystrom**

*Feltl and Co. - Analyst*

**Glenn Rollins**

*- Private Investor*

## PRESENTATION

**Operator**

Good afternoon. My name is Kena and I will be your conference operator today. At this time, I would like to welcome everyone to the first-quarter 2011 Overstock.com Inc. earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions). Mr. Johnson, you may begin your conference.

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**Jonathan Johnson** - *Overstock.com, Inc. - President*

Thank you, Kena. Good afternoon and welcome to our Q1 2011 earnings conference call. Joining me today are Dr. Patrick Byrne, Chairman and CEO of Overstock and Steve Chesnut, Senior Vice President, Finance and Risk Management of Overstock.

We cannot predict the future and we want to stay out of trouble, so let me first read the legal forward-looking statement language.

The following discussion and our responses to your questions reflect management's views as of today, April 28, 2011 and may include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in the press release and Form 10-Q that were issued and filed this morning and our Form 10-K filed earlier this year.

During this call, we will discuss certain non-GAAP financial measures. The slides accompanying this webcast and our filings with the SEC, each posted on our Investor Relations website, contain additional disclosures regarding these non-GAAP measures, including reconciliation of these measures to our most comparable GAAP measures.

With that out of the way, let me turn the call over to Steve to highlight some of our financial results.

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**Steve Chesnut** - *Overstock.com, Inc. - SVP, Finance*

Thank you, Jonathan. Let me give you a brief overview of the financial results for the first quarter of 2011. Unless otherwise stated, all comparisons that we make during our call today will be against our results from Q1 2010.

Q1 revenues were flat compared to last year. Revenues in our direct business [declined] (corrected by Company) by 5% while revenue from our fulfillment partner business grew by 2%. Gross profit grew by 6% in the quarter to just over \$50 million and gross margin increased by 100 basis points to 18.9%.

Contribution margin increased by 60 basis points to 13.1% despite a 40 basis point increase in sales and marketing expense. Combined technology and G&A expense increased by 20% largely due to increase in staffing when compared to last year.

During the quarter, we retired \$10.1 million of our long-term debt, which has a \$24.4 million balance outstanding as we finished the quarter. Working capital increased slightly from Q4 2010 to \$15.1 million. So I would encourage you to review our Form 10-Q that was filed today for a more detailed and thorough analysis of our results. So with that, let me turn the time over to you, Patrick.

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**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Thank you. Referring to the slide deck, going to start on slide 3. Actually each of these numbers Steve has already walked through. Slide 4, Q1 events, of course, everyone knows about the Google natural search penalty we disclosed when that was put on when we came out. It cost us about 4% or 5% of sales while it was on and about 7% or 8% in contribution dollars and it was on for, what, six weeks or so.

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**Jonathan Johnson** - *Overstock.com, Inc. - President*

It was on for two months.

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**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

We have introduced o.co as our shortcut to Overstock. It is getting nice pickup, nice traction and you may have seen something yesterday about the Oakland Coliseum. We are ranked number 4 by NRF/Amex this year and we have received two Stevie awards for the best customer service department and sales department.

Slide 5, growth has come down. Of course, we are up against -- we had a huge -- we had a 42% growth in this quarter last year, so we had a tough comp, but we feel okay. It has stabilized. It has stabilized -- we are not -- as I have been saying for a couple of years, we are really not chasing the top-line growth. It is nice when it comes. We care a lot about contribution dollar growth.

So let's go to slide 6, see there is still slight growth in quarterly gross profit. Contribution dollars, contribution percent, as on slide 7, has gone up to 13.1%. I think that is probably the highest we are going to see it. You guys want to add anything to that?

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**Steve Chesnut** - *Overstock.com, Inc. - SVP, Finance*

I would agree with that.



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**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

We don't want this ticking up to 14%, for example. So we are -- slide 8, contribution dollars, 5% growth. Again, we were hit somewhat by the Google penalty, but still it is positive and we think that we have good growth lined up for this year and this number.

Slide 9, cash flow from operations, trailing 12 months. We are spinning off \$35 million in operating cash flow.

GAAP annualized -- slide 10 -- our inventory turns on a GAAP basis are 40 now and even on a core basis, they are 8.3, which is healthy, love to see it even get up to 10 or so, but we have really leaned out our capital, gotten -- we have spent a lot of the last couple years developing all the pricing and forecasting and we think it is paying off in different ways, and one is we have just stripped a lot of inventory out of our supply chain.

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**Jonathan Johnson** - *Overstock.com, Inc. - President*

Yes, I mean you will see in the last nine quarters, this is the highest it has been. I think there is maybe a little efficiency still to be achieved there, but we are really pleased with the results.

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**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Right. Slide 11, on GMROI, retailers love to look at it on a GAAP basis, 854%, which is, of course, insanely high. On the core inventory only, it is 92% and that is disappointing. We want to be able to -- I think we will see a significant increase in this soon. Would you agree, Steve?

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**Steve Chesnut** - *Overstock.com, Inc. - SVP, Finance*

I would because part of this is influenced by our core margins that we had in the quarter where we had some promotional activities to lean down inventories.

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**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

We would like to see this get at least to 120% as even just a first step. Slide 12 our NPS score, for those who contact customer service, again, just continues to go up and up and up. We can't believe it, but they just keep on finding new ways to do more with less in customer care and satisfy people. So we are at a 58% -- for people -- this is actually an apples to oranges comparison because the 58% is people who have had a problem, called customer service where the overall score of 8% for the average American company is your overall score.

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**Jonathan Johnson** - *Overstock.com, Inc. - President*

Meaning people who do and do not contact customer service.

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**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Right. And those who contact customer service tend to be a little less happy than those who don't. Unique customers down, slide 13, unique customers, we have had almost 25 million people do business with us collectively, but our number of unique customers is down. And on slide 14, new customers are down and slide 15, B2C orders are down. The big difference is our average order size, on slide 16, has gone up quite a bit and this is both a function of our buying decisions and just mix shift going on within -- mix shift going on within our products. Do you want to comment on that, Steve?



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**Jonathan Johnson** - *Overstock.com, Inc. - President*

The other thing I would comment on -- this is Jonathan -- is that part of the customers going down we attribute to the Google penalty box. A lot of people shop now by going through Google and typing in the search part what they are looking for and when we were in the penalty box for the last six weeks of the quarter, it meant that, for many items, we weren't appearing on a page that was meaningful.

**Steve Chesnut** - *Overstock.com, Inc. - SVP, Finance*

I think the average order size was influenced, like you said, Patrick, by mix where we are not chasing the BMMG customer as much and we are getting a great customer around home and garden.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Slide 17, gross profit per transaction, up nicely and some of our costs here are really tied to -- are a per transaction basis cost, so it is nice when we can generate some more gross profit out of each one.

Marketing -- CPA and marketing efficiency. CPA has ticked up. Marketing efficiency at 5.8% on a GAAP basis is right, maybe still a point higher than I would like. The cost per acquisition has gone up for us and again, that is partially a reflection of Google, when you lose those customers who are the cheapest to get.

**Jonathan Johnson** - *Overstock.com, Inc. - President*

They are the cheapest to get and, to counterbalance the affect of the penalty, we did spend more on paid search with Google during the period in the box.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Corporate employees are 19% growth, 850 corporate employees now. That's -- I like this. I feel like we are managing -- we are deliberately growing our corporate layer, but we are -- the majority of it is in technology and we are watching it carefully and trying to keep it -- will keep it growing and consistent with our overall contribution dollar growth. But I don't see this as a problem. This 19% growth is -- we are adding good technologists and getting back -- our innovation cycle has spun upward, creating lots of new things. So I think this is reasonable.

**Jonathan Johnson** - *Overstock.com, Inc. - President*

Can I comment?

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Please.

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**Jonathan Johnson** - *Overstock.com, Inc. - President*

So one of the things that I notice on this chart is that this is the first -- this has the Q1 number going down from Q4. And I think that is a result of some of these technology hires. We are able to be more efficient in different parts of the business. And so while the number has grown 19% year-over-year, quarter-to-quarter it has gone down a little bit.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Okay, let's go to questions. Are there any questions?

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). Dan Kurnos, The Benchmark Company.

**Dan Kurnos** - *The Benchmark Company - Analyst*

Good afternoon. I just had a few questions for you -- two on the top line and two on the expense side. I know that you guys had stated previously that you expected you could grow in line with overall e-commerce growth, at least pace with general e-commerce growth. Given the Google impact in the first quarter and now in the second quarter, do you think that is still a reachable goal?

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Yes, although -- well, first, we are out of it. We are out of the Google penalty box now. I guess I would also say I have stated that goal, but I have tried to be pretty careful to say we are talking on an annual basis. Quarters-to-quarter are going to fluctuate where, in my view of business that in it's four quarters was making 0, 0, 0, 1, then 0, 0, 0, 2, then 0, 0, 0, 4, that would be a great business. It's annual earnings would be doubling each year. But what it is doing in the first three quarters is -- what we are doing in our first three quarters, as long as we come out somewhere around breakeven in the first three quarters, is less relevant to me and on the top line, yes, I still do think that we should be able to grow at least at the industry rate looking out over a year at a time.

**Dan Kurnos** - *The Benchmark Company - Analyst*

Have you guys -- sorry, go ahead.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

In quarter -- I'm sorry, go ahead.

**Dan Kurnos** - *The Benchmark Company - Analyst*

I was just curious if you guys had seen, now that you're out of the penalty box, obviously you had to undertake some actions to alleviate that situation. Has there been sort of -- has your natural search ranking returned close to where it was before or can you sort of quantify that?

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**Jonathan Johnson** - *Overstock.com, Inc. - President*

Yes, Dan, it has and, in fact, we could tell we were out of the penalty box before we were even notified because we saw the search rankings improve and a pickup in sales.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Yes, it jumped back right away. It may not be -- it may be a fraction below where it was before, but it has jumped back since Friday.

**Dan Kurnos** - *The Benchmark Company - Analyst*

You posted a 5% decline in direct. Was there a conscious shift away from the direct or was it just a function of the Google penalty or just a function of the quarter itself?

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

It is really just a function of the quarter. We are pretty agnostic. We don't have an overarching theory as to how much we should be growing one versus the other or shifting revenue back and forth direct or partner. We are just making the decisions on direct on a standalone basis on sort of a case by case, product by product basis. Products get offered at -- is it worth us sinking our capital into it? So there is really not an overarching theory as to where we should drive that. So it just sort of comes and goes with what the product offerings are.

**Dan Kurnos** - *The Benchmark Company - Analyst*

Okay. And two -- just two quick questions on expenses if I might. On the gross margin side, you guys obviously showed a nice improvement there, up 1% year-over-year. You clearly had the bounce in 3Q '10. It is elevated now. You have been as high as 20%. Could you at least give me some sort of sense directionally of where you would like to see that? Will it go higher from here? Or is it more just a function of product mix or revenue mix?

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

I don't think you see our gross margin -- we said three years ago or so, I think we said we had 400 or 500 basis points we could pull out. I think we actually pulled out more than that, more like 700 or 800, but we keep giving a lot of it back to the consumer. So you see our margins go up a certain amount, but we actually -- and similarly I don't think we want to see them go up -- we still see hundreds of basis points more that we can strip out of our supply chain. But I think you see the bulk of that just keep getting passed on to consumers. Steve?

**Steve Chesnut** - *Overstock.com, Inc. - SVP, Finance*

Yes, and that is part of the story. I think we have got supply chain efficiencies that played out in the quarter and we are constantly looking for pricing opportunities to give back those dollars to the consumer.



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**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Yes, and that is right and we still see -- I actually thought, three years ago, we would be able to pull out about 500 or 600 basis points and I think we pulled out about 800 basis points out of our supply chain. And I would have thought we would be running out of ideas by now, but we have Mr. Chesnut here, and Tryon. They have a lot more opportunities coming.

**Jonathan Johnson** - *Overstock.com, Inc. - President*

We still have fertile minds.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

But again, you won't see our margins go up to 25%. And I'm sure you know, Dan, as analysts, that we calculate our margins a little bit differently than other people. Our margins include our logistics costs, so I don't think that you see them go up significantly from here. If anything, we just want to keep the savings (multiple speakers).

**Dan Kurnos** - *The Benchmark Company - Analyst*

Keep them at this level?

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Yes, keep it at this level. That sounds about right.

**Dan Kurnos** - *The Benchmark Company - Analyst*

Just one more thing. Your legal expenses jumped up about \$2 million in the quarter and I guess I hadn't quite anticipated that much of an increase and if there's just sort of any color you could provide on how that is going to -- I know that you won't give exact expense guidance, but where that might trend for the rest of year, that would be very helpful. Thanks very much.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Thanks, Dan. It is an expensive year from a legal point of view.

**Jonathan Johnson** - *Overstock.com, Inc. - President*

Yes, we have got some battles we are fighting. And so I think -- I think we are going to continue to have legal expenses like we did in the first quarter.

**Dan Kurnos** - *The Benchmark Company - Analyst*

All right, great. Thanks a lot, guys.

**Operator**

Nat Schindler, Bank of America-Merrill Lynch.



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**Nat Schindler** - Bank of America-Merrill Lynch - Analyst

Hello Patrick, Jonathan. Just a couple of questions. One, just to go back, and I am remembering actually a different number than in line with the e-commerce idea. I think, Patrick, you said, I think it was two quarters ago, that you expected to grow about 1000 basis points faster than e-commerce long term. Is that --?

**Patrick Byrne** - Overstock.com, Inc. - Chairman & CEO

I don't know. I actually do think that we should be able to grow. It doesn't sound too high to me. I think e-commerce grows 10% and we should be able to grow 15% to 20%.

**Nat Schindler** - Bank of America-Merrill Lynch - Analyst

Okay. I am just -- I am trying to figure out because, obviously, you had -- so you had a very tough comp this quarter, but going back to 2009, you actually had a very easy comp in 2009. So it is really -- it is getting you kind of this oscillation. So if I look back three years to 1Q '08 prerecession or pre the big part of the recession, I guess it could've started in the fourth quarter of '07, but really back before everybody was talking about recession, so looking at a normalized number, you grew -- you were up 31%, which is basically exactly the same as what e-commerce is up, which is fine because e-commerce is growing well.

The challenge I have is how you reconcile that with how much you are spending in tech and G&A and how you are making those decisions because -- and that line is up 44% since that time. And is there a way -- are we going to see this real increase that you have had in employees taper off to something that matches or actually where you could actually get leverage on that line?

**Patrick Byrne** - Overstock.com, Inc. - Chairman & CEO

I think so. I think that our long-term growth in corporate G&A, including technology, should be somewhat below our top-line growth. But I think that where we came through in 2008 was -- we were tightening our belt in an effort to get to profitability, but once having got there and having the luxury of profitability, we are taking dollars and investing it in technology expense.

So you are sort of comparing where we were when we had tightened our belt as tight as we could to where we are now when we have loosened it some. There is always -- I think that there is -- I can't be more precise than I am being. We should be able to grow at least as fast as the industry and I think that our contribution dollars should be able to grow another 5% or 10% faster than that if only because if you then model out what our bottom line looks like given that set of assumptions, it generates very nice growth in the bottom line. So --.

**Nat Schindler** - Bank of America-Merrill Lynch - Analyst

I understand. Another thing, could you help me out a little bit on the exact dates of the Google penalty?

**Jonathan Johnson** - Overstock.com, Inc. - President

Yes. I think we went into the penalty box February 22 and we came out of it April 21.

**Nat Schindler** - Bank of America-Merrill Lynch - Analyst

So just about half the quarter?



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**Jonathan Johnson** - *Overstock.com, Inc. - President*

Yes, it was just shy of half the quarter and it was the first three weeks of the second quarter.

**Nat Schindler** - *Bank of America-Merrill Lynch - Analyst*

Okay, great. And then -- now, you answered in the last question that, as you came back out of the penalty box, you are -- come back up in your search rankings well. Now, I would assume that there was an advantage to doing the SEO work that you were doing that caused Google to get upset. So should your cost of customer acquisition be reset at a marginally higher rate from now on or how marginal is that?

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

It's pretty marginal.

**Jonathan Johnson** - *Overstock.com, Inc. - President*

The things that we were doing that Google took issue with were such an inconsequential thing, piece of what put us high in the rankings that we don't think that not doing them anymore is going to hurt us.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

I mean there is a measurable difference, but probably measurable to us on the inside, I am not even -- maybe it shows up in a matter of a few dimes or a dollar or something in CPA. I'm not even sure if it is that much.

**Steve Chesnut** - *Overstock.com, Inc. - SVP, Finance*

As we have seen it bounce back, I don't -- I mean I think we are going to return back to more of a normal pattern that we saw early in 2011.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

We also have a great relationship with Google. I was surprised about this. We are actually developing some good stuff with them. So I was surprised about the whole Google penalty, but there it is.

**Nat Schindler** - *Bank of America-Merrill Lynch - Analyst*

Patrick, going back quite a few years probably, four or five years ago, your big marketing push at the time was SEO. Are you going to -- is SEO still going to be a major part of marketing or is that just because of what Google did that is kind of a turned off avenue and you are going to focus on brand and SEM?

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

No, we are we -- no, we are not going to turn it off. It is back. It is still a good part of the marketing department. It is a nice healthy chunk of our business. But it is -- no, we are pushing a little bit harder on branding than we have done before, but we are really

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actually always readjusting, analyzing the ROI for dollars spent in every different marketing chimney and trying to optimize for that. But no, I don't see this at all as cutting into our SEO efforts. In fact, I feel like we are getting better and better at it.

In fact, I think that this -- I heard somewhere along the way, some -- I think Wall Street Journal reported that -- I don't know where they got the information -- but that this was all triggered by some competitor who had seen how much we had improved in rankings and hence made a case to Google. So I don't know if the Wall Street Journal was right about that, but -- so anyway, it has happened because I think we are a lot better in SEO than we were four years ago and I don't see cutting into that at all.

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**Jonathan Johnson** - *Overstock.com, Inc. - President*

Yes, I agree with that. I think SEO is still a vibrant part of our marketing.

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**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

It has taken quite a change by the way. I mean SEO -- the SEO world is taking -- a lot of the principles are changing and what the -- for example, SEO -- a lot of it has been about, as you know, I'm sure links and what site links to yours and every link counts as a vote, well a lot of that voting is starting to shift into voting as measured in social media rather than in sites linking to you. So the whole -- the principles of SEO seem to be shifting and the industry is well aware of that shift and we are trying to stay at least current with it and maybe ahead of it.

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**Nat Schindler** - *Bank of America-Merrill Lynch - Analyst*

Oh, it sounds good. Now just a couple quick questions on a different avenue. One, the Coliseum deal, wondering if you can give us some indication of how much you paid and also why the -- what is the affinity with Oakland?

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**Jonathan Johnson** - *Overstock.com, Inc. - President*

Well, we announced yesterday that the deal was \$1.2 million a year for six years. There is a little escalator and it comes out at \$7.2 million for the six-year deal. We also announced that should either the A's or the Raiders leave, we have the option to reduce it to a predetermined price or to terminate the deal. So we feel like we have got some comfort there.

What is the affinity with Oakland? Well, it was a great deal that was offered to us. We have a lot of sales in the Bay area. It is a vibrant community and --.

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**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

And they are the underdog. (multiple speakers)

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**Jonathan Johnson** - *Overstock.com, Inc. - President*

Yes, "it is just win baby" and frankly, the Coliseum has a superb location for branding between the Nimitz Highway 880 and the BART that goes by. There are a lot of people who will see Overstock.com Coliseum every day.

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**Nat Schindler** - *Bank of America-Merrill Lynch - Analyst*

Trust me. I live out here. I know that the backup on the Nimitz is pretty much constant. So you'll get a lot of good long branding hours in front of people's eyes.

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And just on a final question on the legal expense, the uptick in legal expense, I would -- it seems like you have two big legal cases going right now. Obviously, the case against the prime brokers and then also the case against -- there are the California District Attorneys case. Is there -- was there a particular change in one of those or was -- a particular change in the ongoing prime broker case that upped the cost or is this the introduction of the new case?

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**Jonathan Johnson** - *Overstock.com, Inc. - President*

Really neither. The prime broker case is in full discovery stage and we are very busy in incurring expenses there. So I think that is part of it. And the California DA case is ongoing and it is -- we are our incurring expenses there, but we have some patent trolls where the discovery part of these cases has gotten a little more busy. So while the two cases you mentioned are factors in the ongoing legal costs, we have got a lot of litigation and it seems like the tide is just rising in a number of them.

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**Nat Schindler** - *Bank of America-Merrill Lynch - Analyst*

Well, okay, thank you very much for taking my questions.

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**Operator**

Brent Rystrom, Feltl and Company.

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**Brent Rystrom** - *Feltl and Co. - Analyst*

Yes, just have two quick questions. Do you see or do you anticipate a benefit from higher gasoline prices?

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**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Well, great question. I read in the New York Times once a couple years ago that the logistics costs are that the energy used in e-commerce is 90% less than in delivering products to malls and having people -- I am not sure I believe that, but there is a significant fraction, not negligible percentage, a single-digit percentage of our product cost, but probably a high single digit percentage, are ultimately an expression of energy costs. But I think that that is a higher number for brick-and-mortar. And so any inflation in energy costs ends up hurting them more than us.

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**Brent Rystrom** - *Feltl and Co. - Analyst*

Actually what I am wondering, Patrick, is more on the other side. Your consumers are going to be more apt to order from you because they are thinking about do I want to spend the money to drive someplace.

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**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

I've thought that for years, but it just -- it's really -- if you really -- I've thought that for years. If people really understood how much it costs to drive to the neighborhood mall and shop and they tack that on, then online shopping is even more attractive. However, I think -- I am not completely convinced that consumers price it out as accurately as they should.



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**Jonathan Johnson** - *Overstock.com, Inc. - President*

I would say I think though, at some point, that becomes a factor and I am not sure if it is \$4 a gallon or \$8 a gallon -- I don't know where it is, but at some point people -- the trip to the mall is going to be factored into the cost.

**Brent Rystrom** - *Feltl and Co. - Analyst*

If you do a Google search on it, you basically will notice just the last couple of weeks hundreds of articles popping up in newspapers about people saying they are not going to go to malls much and they are going to shop online more. That was the reason it popped up.

And the second question I have, just a real simple one, can you give us a sense of what your best categories are right now?

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

We probably don't -- yes, we have some categories that are doing better than others. We have some that are very good, but we really don't want to disclose that, do we, Steve?

**Steve Chesnut** - *Overstock.com, Inc. - SVP, Finance*

No, no. In the Q or in the K, we do give some breakout and that is probably the best spot to look, but it is the broader categories.

**Brent Rystrom** - *Feltl and Co. - Analyst*

So has it changed much since the K? (multiple speakers)

**Steve Chesnut** - *Overstock.com, Inc. - SVP, Finance*

No, pretty consistent with the K.

**Brent Rystrom** - *Feltl and Co. - Analyst*

Well, thank you, guys.

**Operator**

(Operator Instructions). Glenn Rollins, Private Investor.

**Glenn Rollins** - *Private Investor*

Hey, guys. How are you? I have two questions. The first one is about cash and allocation of cash. It looks to me you have got cash to pay down the remaining debt, rainy day cash. You are investing in technology and stadiums. When might you look at buying back shares? It looks to me like you have ample cash to do that. Second question is can you tell us how things are going at Eziba and the potential you see there?

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**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Well, as far as the buyback, I want to make sure that we are comfortable in getting our current -- having enough -- current note comes due December 1. So what is that, six, seven, months? We don't want to put that in any danger. Jonathan or Steve, do you want to expand on this?

**Steve Chesnut** - *Overstock.com, Inc. - SVP, Finance*

I think we are taking a very conservative position on cash and making sure that we can ensure we can retire that \$24 million.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

I think it is a great price now and I think that we would be buying stock were it not for that we want to conserve our cash and pay off the last of our debt.

**Jonathan Johnson** - *Overstock.com, Inc. - President*

Yes, I think our view is conserving it for the debt is prudent and conserving it for -- we are fairly bearish on the economy, I think it is fair to say -- and having cash, if things turn precipitously south, we think is a safe and prudent bet, wouldn't you say, Patrick?

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Yes.

**Jonathan Johnson** - *Overstock.com, Inc. - President*

So Eziba.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Eziba is going -- it's ticking along. It is like a lot of these smaller businesses we start. We have a discrete team that is managing it with their own bottom line. It will be a double-digit million dollar business this year, on track to be. But we haven't really figured out how -- it has been spinning up just organically. There is a little bit of promotion on Overstock, but mostly it has just been spinning up organically. We are thinking about ways that we might use more of our Overstock asset of traffic into developing a bigger customer base for Eziba.

**Jonathan Johnson** - *Overstock.com, Inc. - President*

The deals on Eziba are great. They are just fantastic and the quality of the products is very high. Glenn, if you have got friends that you haven't referred to Eziba to be members, you need to do it.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Now, I will say that the sales, the products that are selling on Eziba are different than what we had expected out of the gate. I don't want to say what categories we expected and what it turned out to be, but it turns out that the categories that are selling on Eziba are quite different than what we had originally expected.



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**Glenn Rollins** - - *Private Investor*

Okay, thank you.

**Operator**

There are no further questions.

**Jonathan Johnson** - *Overstock.com, Inc. - President*

Well, Kena, thank you for moderating for us. Owners and interested parties, thank you for joining us. We will get back to the salt mine and work hard for the rest of Q2. Thanks.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Thank you. We will be seeing some -- hopefully, we will be seeing some people here next week.

**Jonathan Johnson** - *Overstock.com, Inc. - President*

At the shareholder meeting on the fourth. Thanks.

**Patrick Byrne** - *Overstock.com, Inc. - Chairman & CEO*

Thank you.

**Operator**

That concludes today's conference. You may now disconnect.

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